



## Wholesale demand response – Technical working group Meeting 4 11 October 2019

The fourth working group meeting was held in Sydney on 11 October 2019. The attendees of the meeting are listed below.

Member	Organisation
Mark Byrne	Total Environment Centre
Bridgette Carter	Bluescope
Dan Cass	The Australia Institute
Nabil Chemali	Flow Power
Chris Cormack	AEMO
Lance Hoch	Oakley Greenwood
Emma Fagan	Tesla
Joel Gilmore	Australian Energy Council
Rebecca Knights	South Australia Government
Matt Lady	AER
Troy Mckay-Lowndes	Energy Queensland
Craig Memery	Public Interest Advocacy Centre
Ben Pryor	ERM Power
Jenessa Rabone	AGL
Elizabeth Ross	Enel X
Caitlin Sears	ARENA
Georgina Snelling	EnergyAustralia

The AEMC's project team attended and is listed below.

Name	Position
Victoria Mollard	Acting Executive General Manager – Security & Reliability
Michael Bradley	Director – Retail and Wholesale Markets
Declan Kelly	Senior Adviser – Security & Reliability
Mitchell Shannon	Adviser – Security & Reliability
Lily Mitchell	Senior Lawyer

All enquiries on this project should be addressed to Declan Kelly on (02) 8296 7861.

The AEMC has formed the working group to provide advice and input into the progression of the three rule change requests relating to wholesale demand response:

- *Wholesale demand response mechanism* (ERC0247)
- *Wholesale demand response register mechanism* (ERC0248)
- *Mechanisms for wholesale demand response* (ERC0250).

On 18 July 2019 the AEMC released a draft determination to implement a wholesale demand response mechanism.

Under the draft rule, a new category of registered participant, a demand response service provider (DRSP), would be able to bid demand response directly into the wholesale market as a substitute for generation. A DRSP could also engage directly with a customer without the involvement of that customer's retailer.

Alongside the draft rule and draft determination, the Commission also published two consolidation notices on 18 July 2019:

- The first notice related to the consolidation of ERC0247, ERC0248 and ERC0250. The three electricity rule change requests are consolidated under ERC0247 and named *Wholesale demand response mechanism*.
- The second notice related to the consolidation of RRC0023, RRC0025 and RRC0027. These three retail rule change requests are consolidated under RRC0023 and named *Wholesale demand response mechanism - retail*.

### **Meeting commencement**

At the start of the meeting the relevant paragraphs from the AEMC's competition protocol for the working group were read out, and copies of the protocol (attached) were given to each member of the working group.

Following this, the project team provided an overview of the draft determination. A summary of submissions was also covered, with the team noting:

- The Commission received 40 submissions from a range of stakeholders including consumer representatives, demand response service providers, generators, retailers, network service providers, industry associations, AEMO and the AER.
- Submissions generally reflected views that were presented at the public hearing, two workshops and numerous bilateral meetings that the Commission held over the consultation period.
- The majority of stakeholders were supportive of the Commission's draft determination.
- Some stakeholders noted that the draft determination represented an important reform that would allow for a greater number of consumers to participate in wholesale demand response. These stakeholders typically wanted more clarity around how the rules would operate, or suggested improvements to specific aspects of the mechanism.
- A few stakeholders considered that the benefits of introducing the mechanism set out under the draft rule would be outweighed by the associated costs.

The meeting then focussed on three policy areas raised by stakeholders in response to the draft rule and draft determination: 1) the reimbursement rate; 2) the application of the mechanism to small customers; and 3) the implementation date of the mechanism set out under the draft rule.

AEMO also provided a presentation to the working group focussed on the implementation of the mechanism.

### **Reimbursement rate**

- The settlement framework under the draft determination allows the retailer to continue billing customers for their actual consumption. Retailers will be charged for the baseline level of consumption in the wholesale market. In order for the retailer to recover its costs, the DRSP would pay to the retailer (via AEMO) an amount equal to the quantity of demand response provided by the customer multiplied by a predetermined reimbursement rate.
- The project team noted the majority of stakeholders commented on the reimbursement rate. In general, stakeholders:
  - want greater clarity on the purpose of the reimbursement rate
  - have suggested alternative ways the rate can be calculated to better meet the purpose of keeping retailers whole
  - noted that the use of the reimbursement rate is problematic for retailers with customers directly exposed to the spot price.

- The project team then presented some analysis providing quantitative assessments of the different approaches to determining the reimbursement rate suggested by stakeholders across the different NEM jurisdictions.
- Attendees noted:
  - if the reimbursement rate is linked to forward contracts, these contracts and contract prices should be transparent.
  - the analysis undertaken by the project team should be extended over a longer timeframe
  - there is a trade-off between the administrative complexity of implementing more bespoke reimbursement and the accuracy of the rate
  - a suggestion of potentially having ex-post adjustments to the reimbursement rate to improve its accuracy.
- Attendees also provided commentary on why various trends in the different calculations of the reimbursement rate were observed.
- Attendees also noted the following in relation to the participation of customers with direct wholesale market exposure (i.e. a spot price pass through arrangement) in the mechanism:
  - The settlement model in the draft determination, including the reimbursement rate, did not work well when applied to customers with direct wholesale market exposure. The group discussed the different tariff types that could work under the settlement model. Stakeholders noted the complexity about dealing with this, given that some contracts only have partial spot price pass through exposure.
  - Some stakeholders suggested that the process for dealing with participation of customers with wholesale market exposure should be dealt with in guidelines, while others suggested this would be better deal with in the rules.
  - It was suggested that potentially there could be a process for retailers to notify AEMO that a customer is on some form of spot price pass-through tariff and should therefore be subject to any relevant restrictions on their participation in the mechanism.

### **Application of the mechanism to small customers**

- Under the draft rule, only large customers would be able to participate in the mechanism. The project team noted this is because the Commission considers a broader review is needed of the national energy customer framework (NECF) and the Australian Consumer Law (ACL) to consider their application to new non-traditional energy services and products, including wholesale demand response. This review will commence shortly through the AEMC's 2020 *retail competition review*.
- In submissions to the draft determination:
  - Stakeholders generally agreed that it is important to consider energy-specific consumer protections that should apply to DRSPs. It was noted by a number of stakeholders that they consider it important for any changes that arise out of this to be implemented in a timely manner.
  - The majority of consumer representatives considered it important to include small customers in the mechanism as soon as possible.
  - Generally other parties supported the draft rule position to not include small customers at the current time for reasons including systems changes, baselines and assessing the mechanism as applied to large customers before extending to small customers.
- At the technical working group meeting, attendees noted:

- There were baselines that have been developed for small customers that could be explored. Participants will follow up with the AEMC on this point.
- The definition of small customers is different in different jurisdictions and this needs to be taken into account.
- It was noted that the costs of developing systems to include small customers would be higher than if the mechanism only included large customers. It was noted that it was better to have clarity regarding the participation of small customers in the mechanism so the appropriate system design decisions could be made.
- That an approach could be taken where specific devices are able to participate in the mechanism e.g. batteries and pool pumps. These devices would be the ones that pose a lower level of risk to the consumer.
- Some of the concerns raised in submissions about the mechanism were exacerbated by extending the mechanism to small customers. Instead, some attendees considered it preferable to apply the mechanism to large customers first and apply learnings to the extension of the mechanism to small customers.

### **Implementation date**

- Under the draft rule, the mechanism would commence on 1 July 2022. The draft determination noted that the Commission would continue to work with AEMO to revise this date to the extent possible.
  - In submissions to the draft determination, stakeholders had mixed views on the appropriate implementation date:
    - Proponents wanted the date to be brought forward so the benefits could be accessed earlier and because of reliability concerns in NSW, South Australia and Victoria. SA Government wanted us to bring the date forward. Some options were proposed including trials and ‘soft starts’.
    - Existing participants generally did not want the date brought forward. This was because they considered time should be allowed for C&I contracts to be updated and some retailer systems changes will be required to implement the rule. Retailers noted that also due to the resources dedicated to implementing five-minute settlement and global settlement participants, resources available to implement changes necessary for the wholesale demand response mechanism were limited.
- AEMO gave a presentation on the potential systems changes needed to facilitate the earlier implementation of the wholesale demand response mechanism.
- In its presentation, AEMO noted:
  - AEMO provided a description of the systems changes needed to implement the mechanism by 1 July 2022. Implementing the mechanism would result in broad changes to a range of AEMO internal systems.
  - AEMO had considered an option for implementing the mechanism in late 2019.
  - This early implementation date would rely on utilising existing systems for dispatch. The participating loads would need to be those with SCADA connections. It would also require AEMO using manual processes in some instances to bring the implementation date forward.
  - Given the practical limitations of bringing forward the implementation date, AEMO and other attendees noted that this may significantly restrict the number of customers that would be able to participate in the mechanism should it be implemented earlier (e.g. the requirement to have SCADA data),

- No specific cost estimates for implementing the mechanism on 1 July 2022 or earlier were put forward.
- In response to questions from attendees, AEMO noted that it did not recommend that the implementation date for the mechanism be changed from the date that was put forward in the draft determination i.e. 1 July 2022.
- Following the AEMO presentation, attendees noted the following in relation to the implementation timeframes:
  - Some attendees considered that there would still be value in implementing the mechanism earlier, even if participation is limited. It was suggested that AEMO could approach and encourage eligible customers (e.g. large customers with SCADA) to consider whether they would be interested in participating at an earlier date than the draft determination implementation date.
  - Attendees queried which system changes that would be involved in implementing the mechanism would need to be undertaken by AEMO anyway (i.e. irrespective of whether the mechanism is implemented). AEMO suggested that further analysis is required to confirm this.
  - There may be scope for AEMO to trial different baseline methodologies through the Virtual Power Plant (VPP) demonstrations program.

### **Next steps**

- The project team noted that participants could raise further issues for discussion with the Commission following the technical working group meeting.
- The project team thanked participants for their time and noted that the next step for the project will be the publication of the final rule and final determination on 5 December 2019.